

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL SEVEN)

Docket No. RM2018-10

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO QUESTION 1 OF CHAIRMAN'S INFORMATION REQUEST NO. 2**
(August 9, 2018)

The United States Postal Service hereby provides its response to the above-listed question of Chairman's Information Request No. 2, issued August 2, 2018. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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August 9, 2018

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1. Please refer to the Postal Service's filing in Docket No. ACR2017.¹ Please confirm that the avoided mail processing costs calculated in this filing would be different if Proposal Seven were adopted (and when the same ACR FY 2017 billing determinants and discounts were used).

- a. If confirmed, please describe the factors responsible for such change in avoided mail processing costs (e.g., mail processing cost pool productivity factors, mail processing cost pool piggyback factors, mail processing cost pool volume variability factors, CRA adjustment factor, etc.).
- b. If confirmed, please submit estimates of the impact of Proposal Seven on avoided mail processing costs. If the Postal Service has not estimated such an impact, please explain why.
- c. If not confirmed, please explain why.

RESPONSE:

Confirmed that adoption of Proposal Seven would result in changes to the avoided mail processing costs as presented in Docket No. ACR2017, USPS-FY17-3.

- a. Changes to the avoided costs would occur due to changes in mail processing volume-variable costs by product for various cost pools. These changes in turn would affect CRA adjustment factors used in the cost avoidance models.

However, the changes due to Proposal Seven in measured costs, and hence in CRA adjustment factors, are relatively small. In addition, changes to piggybacking costs (i.e., costs in the denominators of piggyback factors) and/or distribution keys may have minor effects on piggyback factors. Approval of

¹ See Docket No. ACR2017, Library Reference USPS-FY17-3, December 29, 2017, folder "USPS.FY17.3.Files," Excel file "FY17.3 WorksharingTables_Final.xls."

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Proposal Seven would not change mail processing productivity measurement or the Commission's accepted approach to mail processing volume-variability.

- b. The Postal Service has not estimated the impact of Proposal Seven on avoided mail processing costs. The small changes in measured costs under Proposal Seven imply that the effects on mail processing cost avoidances would be similarly small. In most cases, the measured mail processing cost avoidance for a given workshared rate may be written as $CRAFactor \times (ModelCost_{benchmark} - ModelCost_{rate})$, where *CRAFactor* is a ratio of mail processing volume-variable costs ('proportional' costs) for a given product to a weighted average modeled cost for workshared rates within the product, and the *ModelCosts* are bottom-up cost estimates derived from cost avoidance models that do not depend on the Cost Segment 3.1 product costs.² Since product costs from the Cost Segment 3.1 mail processing volume-variable cost model appear in the numerator of the *CRAFactor*, it follows that if the proportional costs change by X percent, then the cost avoidance will also change by X percent in the absence of changes to the modeled bottom-up costs.

Recomputing the cost avoidances in detail would require updating a number of analyses downstream from the Cost Segment 3 models and CRA costs

² For some Periodicals rate elements, an adjusted bottom-up cost is reported in USPS-FY17-3, rather than an adjusted cost difference. A limited number of First-Class Mail letter cost avoidances also incorporate a term reflecting a difference in worksharing-related fixed costs. These cases do not materially affect the analysis.

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presented with Proposal Seven. The updates would include piggyback factors (non-operation specific and operation-specific), mail processing costs by shape, and various cost avoidance models. These are not normally performed outside the annual ACR reporting process, and would require significant time and analyst effort to carry out. Insofar as the small mail processing product cost impacts imply small impacts on the avoided costs, the Postal Service does not believe that the additional information beyond the reported cost impacts would justify the effort. In addition, the Postal Service notes that the observed small impacts would have relatively limited predictive value for cost avoidances to be presented in the 2018 ACR, as those cost avoidances will be affected by variations in data independent of Proposal Seven -- including sampling variability of IOCS-based costs, and changes in operating data such as productivities and other operational parameters of the cost models.

c. Not applicable.